



CITY OF LODI COUNCIL COMMUNICATION

AGENDA TITLE: Adopt resolution authorizing the City Manager and Electric Utility Director to procure energy and/or natural gas for fiscal year 2007-08 at an amount not to exceed \$25 million (EUD)

MEETING DATE: November 15, 2006

PREPARED BY: Electric Utility Director

RECOMMENDED ACTION: Authorize the City Manager and Electric Utility Director to procure energy and/or natural gas to reduce Electric Utility Department's open position (energy not fully procured on an advanced basis) for fiscal year 2007-08 in accordance with the City of Lodi Energy Risk Management Policies at a cost not to exceed \$25 million.

BACKGROUND INFORMATION: Lodi's Electric Utility Department (EUD) must procure wholesale energy in order to economically meet its customer load obligations for fiscal year 2007-08 (FY08) and beyond. In FY08, EUD's projected "open position" is approximately 340 gigawatt-hours (GWH) or about 65% of EUD's total customer load obligation.

As long as EUD has a net open position, it will be exposed to price risk associated with market volatility since prices are regularly rising and falling in the wholesale energy markets. To reduce exposure to this price risk to an acceptable level, EUD's open position can be reduced through strategic market purchases. In FY07, for instance, a series of energy and natural gas purchases were consummated which reduced EUD's open position from over 60 percent to a level of less than 5 percent.

Attachment 1 is the load and resource balance statement for EUD for FY08. It details (i) EUD's projected load serving obligations, (ii) the sources of energy supply available to EUD from its own resource entitlements and (iii) the remaining energy balances that must be procured from the market in order to serve EUD's customers in the most economic fashion. This attachment shows a FY08 load obligation of 500 GWH, a contribution of 160 GWH from EUD's resource entitlements and a net open position of about 340 GWH. Attachment 1 also shows that the estimated cost of procuring energy to close EUD's FY08 open position is \$23 million based on current energy market conditions.

EUD intends to close the bulk of its FY08 open position by making a number of energy and/or natural gas purchases over the next 6 to 8 months, although additional purchases may be made throughout FY08 when prudent to reduce risk and manage energy costs. As outlined in the Energy Risk Management Policy (ERMP) adopted by City Council on January 18, 2006, the City's Risk Oversight Committee (ROC) will review proposed transactions and purchasing strategies. In this regard, the ROC is charged with ensuring that proposed transactions conform with the accepted types of transactions detailed in the ERMP. ROC shall have the responsibility for ensuring that business is conducted in accordance with the Energy Risk Management Policies (ERMP) and will consider transactional risk limits.

APPROVED: _____
Blair King, City Manager

Adopt resolution authorizing the City Manager and Electric Utility Director to procure energy and/or natural gas for fiscal year 2007-08 at an amount not to exceed \$25 million (EUD)

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The FY08 energy and natural gas purchases will be made through procurement activities directed by the Northern California Power Agency (NCPA). Presently, NCPA is authorized to procure energy and natural gas for its member agencies for a period of up to one year; however the NCPA Commission can extend this period if it desires.

This requested authorization includes the possible purchase of natural gas. Spot natural gas prices have dropped dramatically over the past few months and short term prices are at their lowest since 2003. As a result, it may be economic to purchase natural gas on a forward basis for consumption by the Lodi Steam Injected Gas Turbine) STIG Plant (located at the White Slough Pollution Control Facility) to satisfy portions of next summer's (1st quarter of FY08) open position.

For information, EUD is presently working with other NCPA members to establish a longer term energy buying program to be administered by NCPA. Preliminary concepts for such an arrangement are expected to be considered by the NCPA Commission over the next couple of months. If favorably received by the Commission, detailed contractual documents to establish a formal energy/gas buying program will be developed for formal approval by participating members. It is expected that NCPA members desiring to belong to the "NCPA Power Procurement Project" would be able to purchase energy for a forward period of up to five years under a structured arrangement presently under development.

FISCAL IMPACT: The total cost of procurement under the authorization requested is estimated at \$23 million based on market price curves prevailing on October 1, 2006.

FUNDING: Costs associated with procurement under this authorization will not be incurred until energy is delivered in fiscal year 2008. The City has not adopted a budget for fiscal year 2007-08 and as a result, funding has not yet been established. Funding for this authorization will be supported by retail electricity sales revenue, once the fiscal year 2007-08 budget is established and approved by the City Council.

Ruby Paiste, Financial Services Manager

George F. Morrow
Electric Utility Director

GFM/lst

Attachment

Attachment 1

City of LODI		JULY 07	AUG	SEPT	OCT	NOV	DEC	JAN 08	FEB	MAR	APR	MAY	JUNE 08	TOTALS
LOAD	MWH Total	55,715	50,820	44,023	38,559	36,230	39,545	38,194	35,393	37,408	36,482	40,886	46,913	500,168
	HLH	34,995	33,864	27,366	25,296	23,461	24,495	24,332	23,026	23,955	23,855	26,027	30,381	321,053
	LLH	20,720	16,956	16,657	13,263	12,769	15,050	13,862	12,367	13,453	12,627	14,859	16,532	179,115
NCPA Gen.	MWH Total	21,296	17,294	19,689	15,301	2,687	1,595	2,867	4,078	6,023	13,508	17,321	22,553	144,212
	Geothermal	8,664	8,644	8,345	8,602	8,293	8,551	8,530	7,685	8,108	7,078	7,984	8,159	98,643
	Calaveras	3,839	3,081	2,760	2,407	1,764	2,843	3,683	4,834	7,262	8,300	9,337	5,810	55,918
	CT1	-	-	-	-	-	-	-	-	-	-	-	-	-
	STIG	-	-	-	-	-	-	-	-	-	-	-	-	-
	SCL Exchange	8,794	5,569	8,584	4,292	(7,370)	(9,799)	(9,347)	(8,442)	(9,347)	(1,869)	-	8,584	(10,349)
WESTERN	MWH Total	2,570	1,972	1,319	799	510	701	799	956	1,015	1,413	2,168	2,158	16,382
Open Position	MWH Total	(31,848)	(31,554)	(23,015)	(22,458)	(33,033)	(37,249)	(34,528)	(30,359)	(30,369)	(21,562)	(21,397)	(22,201)	(339,573)
	HLH	(17,311)	(19,890)	(12,023)	(14,141)	(23,564)	(25,235)	(24,410)	(21,563)	(21,439)	(14,526)	(13,259)	(12,893)	(220,254)
	LLH	(14,537)	(11,665)	(10,992)	(8,317)	(9,469)	(12,014)	(10,118)	(8,795)	(8,931)	(7,036)	(8,138)	(9,309)	(119,320)
\$ Total		(2,321,539)	(2,387,717)	(1,662,044)	(1,583,311)	(2,366,164)	(2,650,119)	(2,303,889)	(2,027,513)	(2,025,840)	(1,247,570)	(1,219,833)	(1,252,078)	(23,047,616)
HLH		(1,514,720)	(1,740,332)	(1,051,975)	(1,067,670)	(1,779,084)	(1,905,275)	(1,757,517)	(1,552,567)	(1,543,576)	(915,139)	(835,318)	(812,242)	(16,475,416)
LLH		(806,819)	(647,385)	(610,068)	(515,641)	(587,079)	(744,843)	(546,372)	(474,946)	(482,264)	(332,432)	(384,515)	(439,836)	(6,572,200)

GM
10/6/2008
Source: NCPA

RESOLUTION NO. 2006-_____

A RESOLUTION OF THE LODI CITY COUNCIL
AUTHORIZING THE CITY MANAGER AND ELECTRIC
UTILITY DIRECTOR TO PROCURE ENERGY AND/OR
NATURAL GAS FOR FISCAL YEAR 2007-08 AT A COST
NOT TO EXCEED \$25 MILLION

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WHEREAS, the City of Lodi must procure wholesale energy in order to economically meet its load serving obligations to its customers for fiscal year 2007-08 with the projected amount of wholesale energy that must be procured equaling approximately 65% of Lodi's total load serving obligation; and

WHEREAS, to begin reducing Lodi's exposure to this market volatility, staff recommends procurement of electricity and/or natural gas to reduce or eliminate Lodi's net open position for fiscal year 2007-08; and

WHEREAS, it is expected that Lodi's purchases under this Resolution will be made through the procurement activities of the Northern California Power Agency and could occur in various amounts and timeframes through the end of fiscal year 2007-08; and

WHEREAS, Lodi's purchases under this Resolution will conform to the accepted transaction types and other provisions of the City of Lodi Energy Risk Management Policies adopted by the City Council on January 18, 2006 (Resolution 2006-19).

NOW, THEREFORE, BE IT RESOLVED that the Lodi City Council does hereby authorize the City Manager and Electric Utility Director to procure energy and/or natural gas to reduce Lodi Electric Utility's open position to meet load-serving obligations for fiscal year 2007-08 in accordance with the City of Lodi Energy Risk Management Policies at a cost not to exceed \$25 million.

Dated: November 15, 2006

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I hereby certify that Resolution No. 2006-_____ was passed and adopted by the Lodi City Council in a regular meeting held November 15, 2006, by the following vote:

AYES: COUNCIL MEMBERS –

NOES: COUNCIL MEMBERS –

ABSENT: COUNCIL MEMBERS –

ABSTAIN: COUNCIL MEMBERS –

RANDI JOHL
City Clerk

2006-_____